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May 12, 1966

FOR : Mr. Bundy
Mr. Colby
Mr. Gaud
Mr. McNaughton
Mr. Poats
Mr. Unger

SUBJECT : Non-military Action Recommendations

The attached draft is the subject which Mr. Komer proposes to discuss at the meeting at 11:30 a.m. May 13, Room 374-A, E. O. B. preparatory to presentation to the President at 6:30 p.m.

William Leonhart

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Decisions to be Requested of President

1. ACTION PROGRAM TO COPE WITH INFLATION. Across the board three-pronged attack will be made:

A. DOD and AID will each make all-out effort to reduce to minimum inflationary impact of further US buildup. If SecDef agrees, DOD goal will be to keep demands on local economy and manpower at FY 1966 rate, despite increase in deployments and construction program.

B. US will make all-out effort to eliminate bottlenecks to massive flow of aid commodities, especially port and in-country transport congestion. US military will provide shipping, port aid, and in-country lift as required. US will insist that GVN take essential steps speed flow of goods, if necessary using leverage of threatened suspension aid shipments till bottlenecks removed. If GVN unwilling or unable act, US should request Ky approve US military takeover of Saigon port and delivery to importers.

C. As soon as IMF recommendations available, US will present to GVN revised Honolulu package of maximum realizable fiscal measures to sop up piasters. Goal should be an optimum package designed to sop up at least 10 billion piasters via: (1) tax and revenue measures sufficient to raise some \$VN 2-3 billion; (2) raising the piaster take from imports by at least \$VN 7-9 billion, probably via a combination of advance deposits on imports, earlier payments of customs duties, foreign exchange surcharges, and some degree of devaluation; (3) increased GVN sales of foreign exchange at penalty rates for "invisible" transactions, as necessary to bring the piaster recapture rate up to VN \$10 billion.

D. Negotiating Strategy on Fiscal Package. Given the political weakness and administrative feebleness of the GVN, we must design an approach which will minimize political criticism of the GVN yet achieve the desired economic result: (1) while the radical surgery of devaluation may be the only way to achieve quick results, it should be disguised as much as feasible; (2) as carrots we should hold out US approval of a GVN pay raise and some form of US help for Ky's PX system if feasible; (3) since sticks may also be necessary, we must consider threatening to withhold US aid or limiting further US buildup till inflation is brought under better control.

(1) Upon his return, Ambassador Lodge should again raise inflation with Ky as a matter of highest level US concern.

(2) As soon as IMF proposals are in, Bob Nathan should go out as high level negotiator to sell Washington package.

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EXPANSION OF PACIFICATION CAPABILITIES.

A. We will move promptly to increase annual rate of RD Cadre output from 19,000 to 39,000 as fast as instructors are available to maintain quality. DOD will provide construction resources needed to provide new training center. Komer will resolve issue of how estimated \$30 million add-on is apportioned among agencies.

B. We will expedite expansion of police forces to 72,000 end of FY 1966 goal, and promptly study further expansion of police as the preferred longer term internal security instrument.

III. MANPOWER SQUEEZE. Aside from RD Cadres, SecDef and Komer will withhold approval of any FY 1967 GVN manpower increases until overall agreement is reached on civil/military allocation. This means in effect a temporary freeze on all force ceilings at end FY 1966 approved levels until a manpower budget can be worked out.

IV. NEW LAND REFORM INITIATIVE. We favor if feasible a dramatic new revolutionary proposal for psychological impact. Since Cooper-Hewes proposals are not yet in shape for high-level decision, they will be further firmed up as urgent matter by Saigon and Washington, for top-level review the week of 5 June when Porter is in Washington.

V. OVERALL PACIFICATION DIRECTIVE AND MASTER PLAN. We must have these to give focus to the civil side. Saigon draft will be available late May. Komer is preparing complementary Washington NSAM directive setting priorities.

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